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## THE SOCIAL GRADATIONS OF CAPITAL

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The social transition is advancing by leaps and bounds, if not by literal "mutations." People whose lot in life is on the shady side of easy street have hard work to see that anything is doing toward letting the sun into the rear, if it cannot reach the front of their dwellings. On the other hand, people who are watching the human process from the conning towers almost literally catch their breath sometimes, when they glimpse, at a new angle, some of the signs that the old order is changing.

This does not mean that wise observers think visionary promises will ever be fulfilled. It does not mean that they think the world will ever be made over in a day. It does mean that life is still vital. Life is creative. Life reconstructs its agencies. Life energizes its processes. Life eliminates its burned-out tissues, and substitutes structures capable of further service. Life outgrows its immaturities, and advances in the scope of its powers.

All these things are as true of the life of society as of the individual. There is no mysticism about this. It is plain, everyday fact. We know it in detail, but when we try to take a broad survey of it we often obscure our own vision, by selecting some aid that turns out to be more like a smoked glass than a moving-picture apparatus. The real thing which it is up to modern men to realize, by some means or other, is that in the last hundred and fifty

years, and especially in the last fifty years, civilized people have changed their ways of doing their work. The kinds of work that they do have changed. Meanwhile our thoughts about the work to be done and about ways of doing it have also changed. Many of us see that the ways of thinking about the work of the world, which were fairly satisfactory a century and a half or even a half-century ago, have to a considerable extent lost their plausibility. They do not seem to us now to cover the facts with which we are familiar, as they seemed to our predecessors to cover the facts with which they were familiar. Every day new people are passing through a mental conversion which they report in some equivalent of the confession: "For a long time I've had a sort of feeling that something is out of whack in our economic institutions; but I kept still, because I couldn't make out just what is the matter. I've come to the idea now that this very keeping still is a good deal of the matter. We know our present economic system doesn't convince us any longer, but we keep still, instead of speaking out that much, and then comparing notes about why it isn't convincing. The longer we keep still, the more different kinds of twinges it will cost us to make the changes which we shall find to be necessary. The moral is that it is time to take stock of our fundamental social ideas, and to find out how much must be written off for depreciation."

Another fact about the present phase of social transition is that social unrest can no longer be sneered out of court by the plea that it is merely the envy of the unsuccessful toward the successful. Since the present economic traditions began to take shape, there have always been leaders of protest against the system of whom this charge surely would not hold. The number of such who have no private complaint against the present economic order, who admit that it has treated them better than they deserve, if measured by the average of men of similar merit, is daily gaining recruits. They do not join the ranks of destroyers. They have no bombs hidden in their clothes. They are not subsidizing dynamiters. They have waked up, however, to the fact that as a sheer matter of clear thinking, it is necessary for them to find out whether the economic ideas which are supposed to be here to stay are truths or myths.

The inhabitants of the tropics might conduct their affairs without serious error if they took it for granted that water is always either vapor or liquid. If they moved to the north temperate zone, however, before the first winter was over they would find that they could not do business any longer on that assumption.

In a parallel sense, it is fairly accurate to assert that success or failure in life is merely the natural consequence of using or not using the opportunities freely and equally open to all—*provided*, that the assertion is made with reference to conditions in which all are within walking distance of unclaimed land, and all the success there is for anybody is limited by the uses that ordinary manual labor can make of virgin soil. It is extravagant fiction to repeat that assertion where all the land there is has been appropriated by someone, in parcels varying from a city lot which could not be bought for as many gold coins as it would take to pave its surface, to patches of soil barely capable of feeding pigs and chickens enough to support a family.

A society may be near enough for all practical purposes to the truth, if that society depends upon "free competition" to insure economic justice—*provided*, that the members of that society are all alike in depending solely upon their individual labor of hand, or brain, or both, to obtain the results which they will have to exchange with their neighbors. Our present society is assuming the impossible, however, when it dallies with the illusion that there can be "free competition" in a society containing, on the one hand, millions of persons with no assets but their individual powers, and on the other hand thousands of corporations with wealth and credit and legal resources. When the interests of these two types of competitors clash, "free competition" between them is like a boy with a pea-blower besieging the Rock of Gibraltar.

A society may boast that it offers to all alike a fair field for an equal start in life—*provided*, it gives no privileges, nor perquisites, nor preferments, except as a fair equivalent for services rendered, or as a challenging responsibility in view of demonstrated competence. It is stupid or hypocritical to allege equity in a society which suffers the many to start with nothing, but which foreordains that some shall start with endowments of millions.

Men whose interests in the matter are as impersonal as any human interests can be are becoming aware that our social order rests in part upon presumptions like the foregoing, viz., that things are as they should be because other things are so, which are not so. It is a mere matter of time when every man with a conscience, who can also think, will discover that, if he does not join in the demand for reconsideration of the premature hypotheses beneath our social system, he belongs in the same mental limbo with those religious freaks that taboo the telephone because it is not authorized by the Bible.

In other words, we may well go back nearly a century to that still timely saying of Comte, "The trouble with our society is its anarchy of fundamental ideas." After all, what we think, or what we think that we think, about antecedent matters, that may seem far away from practical applications, does much, well or ill, to shape our everyday courses. The miners in Colorado, and Michigan, and Pennsylvania, and West Virginia; the textile workers in Massachusetts, and the South Atlantic states; the railroad employees and owners all over the country; the socialists in every country are raising questions of detail that may be patched up temporarily as questions of detail only. The problems will sooner or later come back to trouble everyone, unless they are treated with reference to underlying questions of principle affecting all the interests touched by the health or unhealth of social relations. That is, as the German economists have been declaring since 1870, *there are no economic questions which are not at last moral questions*. If this fundamental morality in a primarily economic situation is not set right, to that extent the whole social order is unstable.

Expressed in another way, capitalistic civilization has created a capitalistic theory which virtually presupposes that there can be a capitalistic world, insulated from the moral world. In truth, capitalistic phenomena are phases of the conduct of man toward man, just as literally as the same is the case with the phenomena of politics, or religion, or vice, or crime. This truth seems to have the relation of the camel to the needle's eye in the minds of traditional thinkers. Its penetration into common-sense philosophy is illustrated in a back-handed way by the dialogue:

"D'ye think a man can make money an' be kind?" asked Mr. Hennessy.

"Sure, he can," said Mr. Dooley. "But he'll have to have two sets iv office hours."

In so far as human beings enter into economic processes, the final word about those processes, whether they are production, or distribution, or consumption, must be said from the standpoint of the relation of those processes to all the human beings concerned. In short, the processes must be considered as only provisionally impersonal, and as always ultimately personal.

The most evident consequence is that many familiar economic presumptions must be further generalized. Their approximate truth for strictly capitalistic purposes at once appears to be gross untruth when subjected to the social, that is to say, to the human or moral test.

This paper has to do with a single illustration of these propositions. The particular thesis to be developed is that *a large part of the confusion in the present stage of transition is due to our acquiescence in conceptions of capital as an exclusively economic phenomenon, and in corollaries from those conceptions which act as automatic adjusters of conduct to those unmoral conceptions. Conflicts centering around capital press for convincing analysis of capital as a social phenomenon.*

From Adam Smith down, economic theorists and practical business men alike have betrayed little doubt that they have covered the whole ground when they have contented themselves with the commonplace division of capital into "fixed" and "circulating."<sup>1</sup> We have no quarrel with this classification, except as it crowds out another and more significant one. For all purposes which do not go beyond analysis of the technique of industry, the old distinction is ample. Unless we observe, however, that this classification is strictly technical, and that it leaves the moral problems connected with capital entirely unrecognized, this division palsies the social analysis necessary to illuminate the human relations involved. One might sift orthodox English and American economic literature since 1776 without finding unequivocal evidence that a woe-is-me had been felt over the lack of a moral

<sup>1</sup> *Wealth of Nations*, Book II, chap. i.

differentiation of capital. Even the socialists have not followed up their own demand for a reconsideration of capitalism with an adequate analysis of capital in its moral aspects. The familiar distinction between "individual capital" and "social capital" is a coy debutante that has never figured very effectively in the serious work of scrutinizing capital.

The clue to a primary analysis of capital from the social standpoint may be found in the question: *To what extent is the effectiveness of capital in the economic process due to unaided acts of the owner; and to what extent is its effectiveness conferred by acts of others than the owner?*

When the answer to this question is partially made out, it shows that there are three distinct types of capital, considered as a social phenomenon, viz., first, capital which is used solely by the owner; second, capital which is used by the owner in some sort of dependence upon the acts of others; third, capital which is employed, as such, wholly by others than the owner, and under conditions which he does not and could not maintain by his individual power.

For convenience, we will call these types of capital respectively, *tool-capital*, *management-capital*, and *finance-capital*. We proceed to examine some of the comparative moral antecedents, and consequents, and implications of these three types.

For our first illustration, let us take the case of a frontiersman who has cleared a piece of land, and with the rude tools which he has brought from the settlement has added to his equipment a hoe. Of course, this pioneer and his tools are social products. If the demand were made, we might assume for the sake of argument that Friday was potentially in all respects Crusoe's equal. The hard fact remains that Friday could not actually bring to pass what Crusoe could, because Crusoe had been trained in a more advanced school, and had brought from this school tools that Friday did not possess and could not use. Our settler could not have made the hoe if he had not been an heir of civilization. Granting that, and allowing it to stand on the debit side of his account, he used his inheritance without further aid in making his hoe. With the strength of his own arms he uses the hoe in breaking up the soil he has cleared, and he gets a somewhat larger crop than the land would

have yielded if it had not been prepared at all for the seed, or if it had merely been scratched with a stick. The hoe is virtually a part of the man himself. He has given more strength and skill to his hands, more executive power to his brain, more control over nature to his will, by making and wielding the hoe. By his own exertion, not by any gift or privilege from other men, not by taking advantage of other men, nor by sharing the benefits of other men's efforts (with the qualifications already indicated), he has increased his own capacity to produce wealth. As nearly as anything within sight, the hoe itself, in the first place, then the crop raised from cultivation by means of it, belong to the worker by the best right that can be imagined. When a settlement gathers within co-operating distance of this pioneer, and when the neighbors tacitly agree that any stranger who might try to separate the hoe from its maker and user, without his consent, would have to reckon with the whole group, they are merely recognizing elementary moral facts. They are doing nothing that contains an appreciable artificial element. They are resolving to ratify that to which common sense responds. They are saying that the thing which evidently ought to be shall be, so far as their united power can decide.

The relations between capital and labor, as represented by the farmer and his hoe, are thus settled on a basis that is as little open to question as the propriety of leaving his hand free to convey food to his mouth. If all capital were literally a tool in the hands of its owner, and if there were no questions about accidental shiftings of the products of one tool-capitalist's work into the hands of another, it is hard to see how there could be any dubious questions of moral principle in the field of industry.

Let us now suppose a neighboring claim, through which a stream flows. Let us suppose that it has a fall sufficient to develop a considerable amount of power. Let us suppose that the settler has saved enough to build and equip a small grist mill, and that he presently becomes a miller as well as a farmer. As owner and operator of the mill, are his relations to the community in any way different in kind from his neighbor's social relations as owner and operator of the hoe? The customary economic presumption is that they are not, and this presumption may be taken as marking the



beginnings of all the differences of opinion about the ethics of capitalistic society.

If we confine attention simply to the fact that the miller is still working, let us say just as industriously as the farmer, if we think of the mill as his tool, just as literally as the hoe is the farmer's tool, the capitalistic presumption is apparently in strict accordance with the facts. But if we press our analysis a little farther, we find that another factor must now be taken into the account. As we have seen, this new factor is not absolutely new. It was present, as an accessory before the fact, and as indorser and potential co-operator parallel with the fact, in the case of the man with the hoe. It played such a relatively minute part, however, in the work of the man with the hoe, that we found it to be negligible. That factor is the *co-operation of others beside the owner* in making the capital efficient. On the technical side, this has of course been one of the commonplaces of economics, since Adam Smith's masterly exposition of division of labor. In the aspect here emphasized, it has been almost totally ignored. Under normal circumstances, the maker of the hoe might use it until it is worn out, and not be affected, well or ill, so far as his productivity with the hoe is concerned, by the existence or the non-existence of other human beings. If he is able to produce more of a particular kind of crop than he needs to consume, and if he would like to consume something else instead of that surplus, other people then become significant as a possible market; but they have nothing directly to do with the farmer's productive efficiency. The miller, on the contrary, is not thinkable as a miller without much dependence upon his fellow-men, without much assistance from them, and without much potential or actual control of social conditions by them, so that his labor may proceed without interruption and loss.

An argument is possible to the effect that the difference between the man with the hoe and the man with the mill, in the matter of social co-operation, is merely a difference of degree rather than of kind. If anyone derives satisfaction from that way of putting it, we will concede the point; but the force of the admission at once disappears when we take notice that, in its social significance, this difference of degree acquires the importance of a difference in kind,

as the quantity and complexity of the management-capital, typified in the first instance by the small mill, increase.

The crucial matter about this class of capital is that it cannot be a part of the personality of the owner, in the same intimate and literal and complete sense as in the case of the hoe. If we try to express the facts about the mill in terms of a tool, we are confronted by the fact that no very large part of that tool has ever been actually in the owner's hands at once. If he took a personal part in building the dam, he was not at the same time building the water wheel. Supposing that his own hands alone constructed both, it is difficult to imagine that he also alone quarried and installed the millstones, or that he fashioned the rest of the machinery. Given the mill in running order, the owner cannot be in all parts of it at once. He must have one or more helpers. One of them may be needed to keep the gearings in repair, while another tends the hoppers, and the owner deals with the customers. At times the owner must leave the premises for food, or sleep, or bargaining with his neighbors. At those times the mill has to be left in charge of others. That is, the owner is forced to rely upon actual co-operation with others, in order to make his management-capital effective; and the ratio between his own literal operation of the capital and that of the other co-operators varies with the volume and form of this sort of capital. Moreover, another kind of co-operation is involved, both as condition and consequence of the existence and efficiency of this sort of capital. This is the co-operation of the surrounding community in maintaining the conditions without which this type of capital would be impossible.

The moment a worker is in any degree dependent upon another person for the success of his work, the stage is set for a moral conflict. Actual conflict may not occur in a given case. The co-operation may proceed without friction. Each may perform his part to the entire satisfaction of the other. On the contrary, there may be friction from the beginning. Each party may suspect the other party of getting or trying to get too much advantage out of their common labors. Each party may take measures accordingly to embarrass the supposed unjust purposes of the other. Neither

party could prosper if left exclusively to its own resources in adjusting these differences. Appeal must lie at last to customs and laws enforceable and enforced by the community. In the degree of the bulk of management-capital, and of the complexity of its operations, this social co-operation must develop. It comes about at last that the literal tool element in many cases of management-capital shrinks till it includes nothing but an office chair and desk, with pieces of paper which the management-capitalist may hold in his hand while dictating to his stenographers or using the telephone. At the same time, the actual wealth controlled by this tool-capitalist may be distributed among buildings in which thousands of helpers work, over the transportation lines of the world, upon which raw material or finished products are in transit, and in warehouses where marketable stock is stored.

We cannot state too strongly that we are neither asserting nor implying that this phenomenon of management-capital is wrong. We are pointing out in the first place that it is artificial, as compared with tool-capital. The control of the management-capitalist over this large and dispersed wealth is not principally by virtue of his own power. It is principally by virtue of the organized action of society, which gives power not his own to his volitions. This being the case, the terms of this relationship between society and the men whom it empowers to be management-capitalists will always demand closer scrutiny, as to their justice and wisdom, than the simple and obvious resolution of the neighbors to protect the farmer in possession of his hoe. Compared with the group opinion about the hoe, group opinion which results in the development of management-capital must necessarily always be in a high degree contingent. The community, in which the owner of the management-capital may be only a millionth or a hundred-millionth part, must have guaranteed certain elements of social uniformity and stability; it must have put at his disposal certain physical and moral resources reinforcing his own energies; it must have created and supported legislatures, and courts, and civil and military forces available to sustain the legal institutions. Thus the management-capitalist is not, like the man with the hoe, chiefly a self-sufficient individual. On the contrary, the management-

capitalist is chiefly a social product. Measured by the ratio of his powers as a literal tool-wielder, and the influence which he actually exerts as a wielder of other men who actually use the bulk of the tools, he is in a very small fractional degree himself, and he is in a very large degree what his community has enabled him to be. The community has gone before him, and stood behind him and around him, and has potentially or actually exercised a collective power for his benefit, in comparison with which the most capable man is puny.

We must go out of our way to guard against possible suspicion that we are actually or by implication denying or belittling the importance of managerial functions. In fact, no capitalistic fallacy is planted more directly in the path of concrete economic progress, and of clear moral thinking, than the fallacy of some socialists and some labor leaders not socialists, that managerial functions are fictions. Not long ago, within ten days of each other, three organizers of three different types of labor movement told me, in the most deliberate way, that in their opinion there is no such thing as a special kind of work for managers that could not be done just as well by anyone drawn by lot from employees; that the notion of a managerial function is merely a blind to cover up exploitation. We do not question the fact of exploitation in many cases. We do not doubt that the idea of a managerial function is made to go as far as it can in many cases to conceal the fact of exploitation. The laborer will be his own worst enemy, however, until he educates himself out of the notion that there is "no such thing as a managerial function." The laborer has really a larger stake than anybody else in competent discharge of the managerial function. If it is not well performed, it may mean the loss of his job and indirectly of his life and the life of his family. At the same time, it might mean to the capitalist only the loss of a fraction of his property.

There ought to be enough "baseball sense" scattered among American laborers to retire the dangerous fallacy that the managerial function is merely an alias for fraud. Every baseball fan knows better. The "Giants" won a pennant last year and the "Athletics" two, not merely because each was a bunch of capable

players, but also because John J. McGraw and "Connie Mack" handled the players. If either of those managers should announce his retirement, the betting fraternity would change the odds on the prospects of the team before the news was fairly off the wire. What is true of baseball is equally or more true of every complicated business. The difference between competent and incompetent management may quickly mean the difference between life and death for the business. Competent managers can no more be chosen by lot than competent bricklayers, or plumbers, or electricians, or train dispatchers could be selected by lot from the names in the Chicago telephone book. In any system of industry that could ever succeed, the managerial function would have to be insured by some method of selecting competence, not by reliance on chance.

It should be said at the same time, that our present capitalistic system does not insure competent management, although in that respect present methods are far more effective than chance would be. Hereditary management is no more certainly efficient in economics than it used to be in politics. The fact that man is a lazy animal, and that management-capitalists by grace of accident are inclined to hire men more competent than themselves for the strict managerial work guards the technical side of management-capital, but does not remove its social anomalies.

Our analysis of the social relations of management-capital, therefore, in no way implies doubt about the necessity of management as a distinct economic factor, our discussion takes that for granted, but it aims straight at these two facts: *first, the function of economic management would be relatively impotent without the support of social co-operation; second, this social co-operation morally entitles the co-operating laborers and the co-operating society to a share in controlling the terms under which the management-capitalist shall work, and a larger and more influential share than our present economic system has either realized in practice or admitted in theory.*

We return then from this side issue to the main argument.

It is a curious fact that English-speaking economists have almost wholly ignored the necessity of analyzing the relationships which differentiate the management-capitalist morally from the

tool-capitalist. The whole range of the "labor question" has been befogged by employers and employees and theorists alike, through failure to throw on it the light of this simple perception, viz.: *It begs the question at the outset to assume that the management-capitalist is simply an individual, like the man with the hoe; to regard him as exercising solely his own personal faculties; as acting merely in the enjoyment of indubitable natural rights; as possessing and using only those things and those powers which belong to him strictly as a person, which are to all intents and purposes his own proper self, just as the hoe is the extended arms of the man who uses it.* On the contrary, the management-capitalist is a highly artificialized social contrivance. A large part of the efficiency which is credited to him is in fact merely symbolized by him. It is really the working of other men, first in the immediate economic organization of which he is the head, second, in the entire legal and social community whose institutions make the industrial operations possible. Just at this moment it is timely to illustrate by asking the question, Why are capitalistic operations at a standstill in Mexico (March 1, 1914)? Several of the most efficiently managed concerns in the world are anxious to operate there, but they are powerless until the social conditions prerequisite to their efficiency are restored.

An important factor will be introduced among the forces that are making the present social transition, by working out the omitted passage in social theory to which this perception points. The problem is: *What neglected elements are brought into the social question by attention to the fact that the management-capitalist is not merely an individual exercising his unaided powers, but that he is an individual with powers increased tens, hundreds, or thousands of times by virtue of artificial arrangements, which make him the repository of social powers incomparably greater than his own?*

It is a part of the instinct or the strategy of obscurity to represent all formulations of questions like this as attacks upon persons or upon the foundations of morals. No one can deal judicially with a social problem unless he is able to keep the involved questions of principles distinct in thought from the individuals or interests that may be immediately affected by the principles. The problem here in question is no more an attack upon individuals,

or upon wealth acquired by operating in good faith under our capitalistic system, than the problem of *coal* v. *oil* as fuel for our battleships and locomotives is an attack upon the personal character or property rights of our naval officers or railway presidents.

Still further, it is a part of the inbred sophistry of traditionalism to practice sabotage on inquiries of this sort by challenging the inquirers to propose "remedies" for institutions under investigation. Of course anyone capable of scientific reasoning, and willing to pursue it, knows that such opposition is on a par with demands that the meteorologists and the oceanographers shall either stop their studies or present "remedies" for the arctic currents and the Gulf Stream. The immediate capitalistic problem is not a question of approval or disapproval. It is not a question of retention or substitution. It would be an urgent scientific problem, even if there could be no more thought of turning its results into a program than the astronomers have of rearranging the solar system. In the first instance, the capitalistic question, on its moral side, is a pure problem of analysis, viz.: *What are the facts about the social relations involved in the phenomena of management-capital, as compared with tool-capital?* After we have become generally acquainted with these facts it will be in order to consider what may, can, or must be done about them.

This is not the place for an attempt to trace in detail the evolution of the customs and the laws which give to management-capital its present status. We can here merely point out certain significant features in its development and in its results up to the present time.

Most obviously then, the arrangements, by virtue of which the management-capitalist of today has his radius of action, are in part the accumulation of habits, or the "crystallization of custom." Under pressure of circumstances which no individual could control, which, however, in the course of time some individuals became better able to accommodate themselves to than others, certain standards grew up in accordance with which the management-capitalist was able to secure the assistance of other people not capitalists. At the same time, and through a series of

generations, legislation accumulated, defining the scope of action which the management-capitalist might perform with the approval, and to a certain extent with the assistance, of the government. This accretion of custom, and particularly this body of laws, is by no means in the interest of the management-capitalist alone. It has developed, and it operates, to some degree, in the interest of the helpers who come most directly to the assistance of the management-capitalist, and of all the other persons in the community, both as individuals and as an organized society.

It is not necessary, for our present purpose, to inquire whether anyone took undue advantage of anyone else, in building up this body of customs and laws; or whether the circumstances were such that the customs and laws would inevitably be shaped more by certain interests than by others; or whether the opinions that prevailed in promoting this, that, or the other piece of legislation were thoroughly impartial. The essential thing about these enabling acts, whether of custom or of law, is that they are, each and all, both specifically and as an institutional system, reflections of *opinions* about what was just and fair, or at least expedient, under the circumstances in which the judgments went into effect. As a matter of fact, these opinions may have been held by a considerable majority of the community that gave sanction to a given provision, or by a smaller number, dwindling down to a bare majority of some legislative committee with pull enough to "put through" a piece of special legislation which attracted little attention. They may have been opinions which reflected the moral sense of all concerned, or they may simply have registered the terms which a few had the physical power to force on the many. In so far as previous acquiescences continue to be the custom and law for people succeeding those by whom the arrangements were made, the only moral justification for that continuance must be found in good and sufficient reasons for the persistent opinion that the arrangements still represent that which is just and fair, or at least expedient; the welfare, not of special interests, but of all interests concerned being taken as the criterion.

Now the first consideration to be emphasized, in view of all these things, is that, in consequence of the very fact that the



institutions which do so much to make the management-capitalist are not, as in the case of the man with the hoe, plain recognitions and ratifications of indubitable facts, inasmuch as they are so largely registrations of opinions, and often of minority and interested opinions, about the meanings of facts, *the room for error in those opinions increases with the complexity and variability of the facts concerned.*

That is, as we have seen, there is practically no room whatever for any doubt more serious than a quibble, as to whether the man who has made the hoe should be supported by his neighbors in having and using the hoe. There is a great deal of room for doubt as to whether the ownership of a steel plant, with thousands of operatives, should permanently involve the precise balance of power, which our present institutions sanction, between management-capitalist, operatives, and public. The reason for this is not that, whereas justice was once obligatory, it is obligatory no longer. The reason is rather that the human arrangements, which may have been as nearly just as possible in an embryonic social condition, may turn out to be variously unjust in a more complex social condition. The judgments which the people immediately concerned passed upon the relations involved in the earlier condition may prove to have only the value of naïve guesses, when carried over to later relations. As such premature suppositions, the judgments have no sacredness as standards of justice, after the workings of the institutions, which the judgments support, have proved to be different from those anticipated.

Suppose the particular type of management-capital in question is the fixed and circulating capital of a manufacturing corporation. The president of the corporation holds a majority of the stock, and is the actual manager. It may be that, in many respects, he exercises his powers to the advantage of all concerned. That was true of some of the "benevolent despots" of the eighteenth century. In spite of the amiable and efficient qualities of some of these princes, however, civilization presently decided that "benevolent despotism" was an obsolete political principle. *The significant matter is that an uncomputed portion of the power which this corporation-president-management-capitalist wields is not his own*

*inherent power. It is the power of society transferred to him by the artificial process of law-making, together with the gravitation of industrial custom.* In connection with such a recent contrivance as a corporation, it is needless to enlarge on the proposition that the lawmaking process which created corporations, and defined their powers, was at least as much a matter of guesswork as the process of making a schedule of railway freight rates. It is notorious that the more our American traffic men have known about the rate situation, the more frankly they have admitted in private that nobody has found out how a rate scale should be made. Under the circumstances, it is not wonderful that there is no very widespread belief in the unimpeachable sacredness of a freight tariff. For precisely parallel reasons, it is impossible for judicially minded men to believe that there can be anything approaching permanency in the assumptions which experimenting legislators have woven into our laws of corporations. When the community agreed that whatever a man produced with his hoe should be regarded as rightfully his own, it had in view a fairly close conception of the utmost which that particular assurance might involve; and the agreement was accordingly unimpeachable. When, after 1800, legislation began to create joint stock companies, it was impossible that anyone could have had a very adequate conception of what that creation would involve. It proves to involve, under certain circumstances, such outcomes as this, among others. The corporation supposed at the beginning of this paragraph may cover all the cost of production for a year at market rates—that is, rent, wages, interest, salaries, cost of material, taxes, insurance, depreciation, etc. There may remain to the credit of the company on the year's operations values aggregating a million, two million, five million, ten million, twenty million dollars. It appears that the legislation which has made this species of management-capital possible authorizes the management-capitalist, with very slight limitations, to act as though this residuary product were his own creation, as literally as the increased yield of the soil was the product of the man with the hoe. Reserving for consideration under the next title the qualifications necessary in the case of minority stockholders, this management-capitalist is under no legal obligations whatsoever,

so far as the surplus is concerned, to recognize the partnership of any of the other persons who co-operated in producing that surplus. The law assumes, and until recently business theory has taken it as self-evident, that whatever remains, after settling with market supply and demand on the year's transactions, represents the personal contribution of the management-capitalist to the operations. Absurdly enough, minority stockholders have the legal status, at this point, of management-capitalists. On the contrary *that surplus really represents the amateurish provisionality of our distributive system.*

Nothing could be more self-evident to a discriminating mind than that this surplus *does not* represent the merit of the management-capitalist alone, but that it is due to a number of concurrent factors. Our present economic system helplessly confesses judgment when it dodges the problem of ascertaining the equities between these different factors, and stupidly leaves the whole questionable surplus to a single one of them. Not even the state has begun to use its taxing power so as to assert a respectable fraction of its probably just claim as an indispensable copartner at every stage of the capitalistic enterprise. By virtue of the stupendous gift of power which civil society has bestowed, the individual management-capitalist may vote to himself, and to fellow-stockholders less entitled than himself (as we shall see under the next head), pro rata shares of this whole surplus, and the other chief partners in producing it—civic society and the operators of the plant—have thus far no recourse. Indeed, if the management-capitalist wanted to, and time contracts were not in force, no legal provision could prevent his discharging every one of the operating partners at the close of the last working day of the year, and starting up with a totally new force the next day.

And we see no difference between capital with such prerogatives and tool-capital!

We now turn to the third grade of capital in the social scale. We have seen that there is a sort of capital which is literally a tool in the owner's hands, or by a slight stretch of the imagination it is the owner's extended self at work. It gets all its productive efficiency from the owner's direct effort. With a certain important

reservation covering the work of previous generations up to the time when the record of the given individual begins to stand for itself, nothing which this kind of owner brings to pass with his capital depends upon any other human being but the owner himself.

We have seen that there is another grade of capital which is possible, and which is productive, because other people consent to become partners with the owner in holding and using the capital, and because they consent to allow the owner to become a partner with them. We have called this type *management-capital*. Its peculiarity is that its economic efficiency is conferred only in part by the labor which its owner performs. Both in bulk and in importance the owner's work may be only a small fraction of the energy and skill by virtue of which the capital becomes an instrument of production. The other persons whose activities combine with those of the owner—the civic society and the operatives in the immediate enterprise—may represent by far the major portion of the actual motor power and direction which give to the capital its productive virtue.

*But there is now a third grade of capital. It is still further removed from the literal productive activity of the owner. It is capital which might be just as productive as it is, if the owner had never lived. It is capital to which the owner has no functional relation at all, so far as the process of economic production is concerned. It is capital the owner's possession of which is a purely conventional arrangement. He does not hold it literally. He could not retain it by the utmost exertion of his individual power. It might be sterile in his hands if he could. All his competence in connection with it is conferred by the agreement of civic society to sustain him as owner, and to sanction his exercise of those property rights which the morals of that society associate with ownership. We have called this grade finance-capital.*

Our analysis of the intermediate grade of capital has gone far toward showing that *private property is progressively social endowment*. With these preliminaries before us, and with the added observation that what is true of the increment of social endowment, as we pass from the simplest tool-capital to the most complex management-capital, is still more true of finance-capital, we may abbreviate the present section of the discussion.

Every person who has opened a savings-bank account by depositing a dollar is a finance-capitalist. The three, four, or five cents payable on that deposit at the end of the year have not been produced by any effort of the depositor. They would have accrued just the same if he had dropped dead before he passed out of the bank door. Year after year the interest would be credited to that account, whether or not an heir put in an appearance to collect it. The dollar goes on "earning," utterly irrespective of the further actions of the finance-capitalist, but by virtue of two co-operating organizations; the business organization on the one hand, which forwards the dollar to some point where workers convert it into more than a dollar, and the legal organization on the other hand, which puts every man in the business organization under liability to punishment—from the bank window, out through the business system, and back again to another bank window—if he fails to do what the law requires of him in the process which makes that deposit safe and profitable.

Possibly the means of social endowment which have stimulated the development of management-capital include in principle all those that permit creation and expansion of the subsequent grade of capital. So far as the outcome itself is concerned, in the shape of capitalistic phenomena which have a distinct social character, it is immaterial whether the particular variants that result in the phenomena are new in principle or only in detail.

A more advanced type of the finance-capitalist is the money-lender by vocation. He employs his time finding borrowers who will pay for the use of his money while furnishing good security. He may by courtesy be said to work. As we shall say in a moment of the more dignified work done by the banker, the time so spent satisfies real human needs, and in a particular case it may very well be that the lender actually deserves all that he collects for his loans. (Whether he does or not is a question by itself. Its answer either way will not affect the matter in hand.) The immediate point is that the kind of work which the loaner performs does not itself make his capital productive. If A. in good faith loans a thousand dollars to Z., it depends not only upon Z., but also upon the industrial and civic society in which both live, whether any

interest at all, or even the whole or a part of the principal, is returned to A. If Z. proves to be, as A. supposed, a successful farmer, then Z.'s work on the soil will be the actual means of producing the new wealth to pay the loan with interest. If Z. turns out to be a gambler, and such an amateur one that he actually takes chances, A.'s good intentions may not prevent his capital from taking wings "without recourse." A. does not produce in the one case more than in the other. I repeat that what he does may be quite as worthy of reward as though it were actual production. It is not, however, a part of the productive process in the strict sense. He has a legal claim to something which others may use as a means of production, and by virtue of further legal support he is able to collect from the producer a plus in excess of his loan. Whether or not he is morally entitled to that plus, or any part of it, is in either event entirely aside from the fact that the particular work which makes payment possible is done not by himself, but by somebody else; and the ability to hold Z. responsible for that payment is not A.'s own ability, but the ability of organized society put at his disposal.

It is a long step in social development to the type of finance-capitalist represented by the bank of deposit and issue. It is needless for our present purpose to become involved in details of financial technique. Speaking in general, the bank as medium between depositor and borrower is of course performing functions quite distinct from those that primarily touch the circulating medium. Our point is simply, as before, that neither of these activities can reach relatively high development unless the practices of business and the agreements of civic society go hand in hand in creating a social medium favorable to these operations. As the dubious history of so-called "private banks" in Illinois shows, there is a certain scope for credulity on the one hand and for irresponsibility on the other in carrying on banking operations. The rule is, however, that fiduciary transactions cannot reach relatively high development unless civic society furnishes the legal apparatus which makes all types of trustees responsible. On the side of the banks themselves, the truth is essentially as stated in the case of the private lender of his own funds. There could be no banks, the

men engaged in banking would have to consume their own capital in order to live, if production proper were not carried on by other people, so as to create the means for remunerating both bankers and their depositors.

Our leading proposition is still that the system which regulates the relations between these parties is a system of agreements, a conventional system, a construction of opinions as to what is right and wrong in the balance of power between the types of persons concerned at every step of the operations. In the concrete, the bank president is worthy of his hire just as distinctly as the man with the hoe. In the case of the bank president, however, there are a hundred points in the series of conclusions implicitly leading up to the fixing of his salary, where there is room for debate about the validity of the findings, so far as the scope of his powers and the rate of his remuneration are concerned; while there is only the one plain issue in the case of the man with the hoe.

We must keep calling attention to the fact that we are not arguing that finance-capital is wrong. We are pointing out that it is artificial. The simple fact that it is artificial keeps the question eternally open whether the artificial elements in the arrangement correspond with a relatively belated or a relatively advanced stage of social intelligence. The legal system which supports the artificial adjustments is the expression of a complicated body of *opinions*, one resting upon another in the most involved fashion, about what ought to be, in the relationships of all concerned with this type of property. It should go without saying that the banking functions must be performed by someone, somehow, in any society that continues the process of civilization. No one capable of conducting an analysis like this could have any doubts about that point. On the other hand, finance-capital when aggregated, and held in large masses by a few owners or their agents, is such a different social factor from anything that could be imagined from the standpoint of the depositor of a dollar, that the theory and practice of finance-capital present perhaps the central sociological problem of our time. The whole hierarchy of opinions, upon which our present system of finance-capital rests, must be re-examined from premise to premise, and from conclusion to conclusion, in the

light of the enormous visible anomalies that have developed in the operation of the system.

One more type of finance-capitalist may be referred to for purposes of further illustration. It is the man, woman, or child who has come into possession of wealth by the operation of social factors of which the owner is the passive beneficiary. The owner enjoys revenues from that wealth without the slightest contribution of his own to the processes which make any revenue whatever possible. A. B. has inherited, for example, one thousand shares of the X. Y. Z. Manufacturing Company's stock. A. B. has never seen the plant of the X. Y. Z. Manufacturing Company. He knows nothing whatever about the processes which men in that organization are carrying on. They are creating wealth without the least assistance from the fact that he is in the world. Yet social co-operations guarantee to him a regular share in all the wealth that these actually functioning persons create. It may be that, instead of a thousand shares, he has been presented by society with a majority of the stock of the concern. Besides collecting the larger part of all the surplus wealth produced by the plant, he may now influence the welfare of all the operators in the concern to an extent that for a long time has not been within the power of political rulers in civilized states. That is, by following a path whose leadings no one could see in advance, capitalism has brought large sections of industrial human beings back into social relations as dependent upon the will of other human beings as the subjects of princes "by divine right" were to the decrees of those rulers. This is not rhetoric. It is not fiction. It is the bald and literal fact in the case of many inheritors on the one hand and operatives on the other. This relation of superiority and subordination is given only in part by the nature of the case. In its other parts it is decreed by the opinions of society. It is not confined to inheritors alone among capitalists by any means; but we refer to it in connection with them in particular, in order to call attention as sharply as possible to the anomaly.

Now the present social transition is a partly instinctive, partly reasoned reaction to the partially recognized artificiality in our social relations. Nothing can stop this reaction, because it is



reality asserting itself against partial unreality. Constructive social action must necessarily proceed by means of more precise detection of the artificial elements of our institutions, and by means of revision of judgments about their value.

To start at the beginning, in the case of finance-capital, it is a debatable question whether we are not turning morals upside down by supposing that the depositor of a dollar in the savings bank deserves any payment at all for his deposit; and whether we are not turning economics into a chimera by supposing that we can permanently act on the assumption that he deserves a payment and that other people can permanently afford to pay it. Capitalistic society has taken for granted, without proof, that the depositor is entitled to 3, 4, or 5 per cent annually, simply because he can get it; but it is an open question whether he ought not rather to pay 3, 4, or 5 per cent annually for the security which the business and the legal system together afford. At all events, the depositor of a dollar has no right to rail at "Wall Street," as the heavy villain in the plot, unless he is willing to treat these matters as debatable. If "Wall Street" is in any way wrong, it will turn out to be, in part at least, because of confusion of ideas which begins with the dollar deposited in the savings bank.

One of the most familiar, and at the same time most fatuous ways of arresting perception that this whole question of principle, in the matter of justifying income to finance-capital, is debatable, is school-masterish assertion that people would never have saved and loaned wealth if they had not received a bonus for it. As a pure historical generalization the proposition is probably nine-tenths true. It nevertheless does not contain the insinuated conclusion. It by no means follows that saving will always have to depend upon that motive, nor that a society convinced that the privilege and premium factors in the incomes of finance-capitalists are fallacious will have no other recourse for insuring a continuance of the necessary supply of capital.

Ethnologists are pretty well agreed that we should not yet have had the capability of sustained industry which civilized peoples exhibit, if slavery had not supplied the intermediate training which disciplined men for persistent effort. Americans know that we

should not have had our western railroads as soon as we did, if enormous land grants and other gifts had not stimulated individual enterprise to go far ahead of public demand. We know too that our mineral resources would not have been developed to the present extent, if public endowments had not been turned over to individuals with a prodigality which we should now be too wise to repeat. Our present policy in Alaska proves so much. That is, the historical process through which we have arrived at our present wealth, and knowledge, and character is not necessarily in detail the process which we shall perpetuate in our further use of what we have acquired. If we find that we have offered unnecessarily large premiums for certain kinds of activities, we can lower or abolish the gratuities, as we have lately done in the case of some of our tariff schedules.

Returning then to the proposition that finance-capital is an artificial phenomenon, the fabrication of an involved system of opinions, it is obvious that the degree of validity of finance-capital, as a permanent device, depends entirely upon the degree of artificiality and generality of the judgments which have produced the device.

First, as to the artificiality. What happens when X. deposits his dollar in the savings bank? An officer of the bank holds repeated conversations with Y. who, let us say, owns an undeveloped water power. These conversations are followed up by further investigations into Y.'s credit and business ability. Another representative of the bank examines Y.'s title to the site. Still another agent makes estimates of the cost of developing the power, and perhaps a fourth reports on the probability that the power can be profitably leased or that the owner can himself make it pay. Finally the directors of the bank decide to put X.'s dollar with the dollars of many more depositors, and turn them over to Y. for use in developing the power. Y. agrees to pay 6 per cent for the loan. At the end of the year 3, or 4, or 5 of the 6 cents which Y. has paid for X.'s dollar are credited to his account. Meanwhile X. has known nothing whatever of all these transactions, beyond the mere fact that the bank has given him a little book, with credit for a dollar written into it, and the fact that, if he calls at the end of the

year, he is offered his choice between receiving the 3, 4, or 5 cents in cash and having another credit for the amount written into the book. What is the actual efficiency which makes that choice possible? Not X.'s, certainly, for after he left his dollar in the bank it would have been the last he would ever have seen of it or its equivalent, if he had been left by his fellow-citizens to do his best to recover it. He does recover it, with an addition, simply because one combination of men worked in the business system to make the dollar productive, and another combination of men worked in the legal system to make the dollar plus secure; in brief, through assurance of the inviolability of contracts. Now as a mere matter of hypothetical illustration, it is easily conceivable that, as we study the workings of financial contracts, our opinions may undergo very radical modifications. It is highly probable that we shall greatly mature our opinions as to the conditions to be observed in order that contracts should receive public sanction; that is, in order that the community as a whole should accept the rôle of indorser and sustainer to which it is committed in connection with contracts. For instance, it is conceivable that we may sometime refuse to give legal effect to any contract involving finance-capital, unless a judicial representative of the community has passed favorably in advance upon the equity of the terms, especially as between either or both of the contracting parties and the now inadequately represented contractor, the civic community.

For another illustration, suppose we go back to A. B. and his inheritance of a controlling interest in the big factory. A. B. may still be in the cradle. So far as the operation of the plant is concerned, his presence in the world, or absence from it, makes no more difference than the presence or absence of one drop more or less in the Atlantic Ocean. If natural processes only were in operation, the chances are millions to one against A. B. and the X. Y. Z. Manufacturing Company ever being introduced to each other as owner and owned. Whence then this fateful linking-up of their destinies? The explanation is, of course, that the community has followed certain traditional rules, and it has installed certain machineries for securing their application. A. B. falls under the workings of those rules. By the will of society, not by his now

might nor power, he is put into a position in the social order which it is inconceivable that he could ever have reached strictly by his individual efforts. He is, let us suppose, next of kin to the man who owned a controlling interest in the company. His consanguinity may have been very remote. The owner may have left neither near relatives nor a will. The civic community long before decided what course property should take under those circumstances, or rather, probably those precise circumstances were anticipated by nobody when the civic agreement was adopted, but these circumstances are covered by the letter of the agreement or of precedents accepted as interpretations of the agreement.<sup>1</sup> The community has in waiting probate courts, and guardians, and trustees, and executors, with rules for their procedure. These agencies are directed by the community to do their several parts in conserving the estate and in coaching the heir, until twenty-one years later he is informed by society that he is now entitled to "rights," which make him arbiter over the destinies of many of his fellow-men!

Centuries ago, if Piers the Plowman died possessed of a hoe, it was the common sense of his fellow-citizens that justice would be done if that hoe passed to his son, who would be the most natural successor of his father in tilling the momentarily tenantless patch of ground. Generation after generation since, we have been enlarging on that habit of standing by the transfer of the ownerless hoe to the person most likely to put the hoe to its proper use. Meanwhile the things left ownerless have grown from hoes to factories that are virtually cities, or to transportation systems that might make or mar the prosperity of a nation. And our habit of standing by old rules of inheritance, and old permissions of bequest, leaves us unaware that in applying our habit to the giant factory or the railroad system we are doing anything morally different from standing by Piers the Plowman's son in succession to the hoe!

By generations of stultifying habit we have deadened our minds to the anomaly of a system, professedly democratic, which permits individuals, through the sheer irrelevancy of blood relationship to other individuals, to take over and exercise the ownership of

<sup>1</sup>This form of expression does not imply a harking back to the "social contract theory." It merely exhibits the literal force of legislation.

millions of capital, without even counterbalancing conditions requiring a corresponding return to the community. We gratuitously present to some men the privilege for life of levying on the earnings of other men, and of passing along the same gratuitous privilege to someone in the next generation, without the slightest assurance, beyond a paltry inheritance tax, that an effort will be made by the grantee to compensate either the persons directly under tribute or the general public. Not only this, but by placing the powers of finance-capital at the disposal of these privileged persons we give them large scope to influence the social conditions which affect the lives and fortunes of their fellow-citizens.

But suppose our ideas about the rationality and morality of ownership had progressed as much as methods of agriculture have since Piers the Plowman's time. Suppose we had meanwhile become as wise to cause and effect in human relations as we have about the technique of acquiring wealth. Suppose, in particular, civilized communities had decided that they would not be parties to the creation or perpetuation of preferential wealth or opportunity. Suppose it had become a part of common sense that dead men's capital must pass to those living men who are most likely to make the capital productive. Suppose the civic community in which the X. Y. Z. plant is located had provided that, under the circumstances assumed, the plant should become the property of the whole body of its operatives, with charter control of their relations among themselves, and of their liabilities to the community. We should then have a relatively natural order, developing with the actual development of industrial society, instead of an antiquated artificiality.

Second, as to the generality. As I have shown in another connection,<sup>1</sup> as the example of Piers the Plowman and the contrasted artificial cases have already illustrated, and as I pointed out more generally in early paragraphs of this paper,<sup>2</sup> the present vagueness in our conceptions of the morals of capitalism is due in part to crude credulity that a relation which is morally wholesome in a relatively simple social situation is necessarily wholesome in a highly complex social situation. On the contrary, suppose we

<sup>1</sup> *American Journal of Sociology*, XIX, 441.

<sup>2</sup> P. 723.

have, instead of two individuals bargaining over small quantities of visible goods, one party that is a highly specialized, and informed, and equipped promoter, and the other party that is an unconscious, uninformed, and inadequately represented public. The contrast between the circumstances in the two types of cases can hardly be brought to the attention of any judicial person without arousing wonder that intelligent people could ever have acquiesced in permitting the rules that seem to fit the former type of case to apply, without radical restrictions, to the latter.

Again, suppose I am a small farmer, and the general store supplies me with the necessities of life, at fair prices, through the summer, on my promise to pay as soon as I have collected on my cotton in the autumn. It is rather evidently in the interest of public policy that my contract shall be held inviolable. If, on the other hand, I succeed in getting careless or corrupt representatives of the public to give me a franchise which I capitalize so that it yields me two, four, five, or ten times a fair equivalent for interest on the actual investment plus a fair wage for the service, it is obvious to anyone capable of analysis that somewhere in the course of transition from direct and simple relations between man and man to indirect and complicated transactions between artificial legal persons, the balance of even-handed justice has been destroyed, and that it is subornation of the wrong to insist that the disarrangement must be accepted as eternal, and that it "strikes at the foundations of society" to study means of returning nearer to equity.

Again, waiving all questions which have been suggested above about interest as a source of income, suppose I am a farmer and need a thousand dollars to build a barn. Suppose my neighbor has a thousand dollars which he is willing to lend for a consideration. It might be the nearest approach to wisdom and justice which the community could achieve, if my neighbor and I were left to settle the terms between ourselves, with no more interference by the community than would be implied in our mutual knowledge that, whatever the terms agreed upon, the community would hold us to the agreement. Suppose, on the contrary, my neighbor has moved to the city, and has made use of the particular species of modern improvements which enable him to transform himself into

a trust company. Suppose he has acquired all the facilities for obtaining market information, and for co-operating with other finance-capitalists, which give him a decided advantage in bargaining with amateur borrowers. Suppose the region in which I live has grown into a town, and needs a water system. Suppose the representatives of the town bond the water plant to the trust company on terms which yield a profit to the latter institution far in excess of the rate which a competent third party would estimate as fair. The point which we are now illustrating is that it is preposterous for the civic community to proceed on the same assumptions toward the town and the trust company which were wise in the case of myself and my neighbor. The differences between us, in all the elements of our situation, when we were ordinary farmers, were not great enough to justify interference with any bargains we might make, or to make it public policy to offer either of us any recourse in case of dissatisfaction with the agreement once made. Because it is wise for the community to give to private bargains the sanctions of law, when the bargainers are on equal terms, it by no means follows that public policy will permanently permit treatment of amateur and specialized bargainers as presumably equal, and it by no means follows that in advanced society the machinery for realizing the community interest in finance-capitalistic operations should not be greatly modified, with a view to securing a more balanced type of bargaining as a condition of community sanction.

Once more, if I buy a stagecoach and pass the word along between the points A and D that I intend to make regular trips, and to carry passengers and parcels at fair rates between those localities, it would be difficult to imagine that any serious variations from social balance could result from a community policy to allow traffic and the rates to develop on the obvious supply-and-demand basis. If I charge what I think I ought to have, and the dwellers along my route use my service or not, according to their convenience, it will not be long before facts will attend to the permanence or the transience of my enterprise. But suppose I am a finance-capitalist with a fancy for manipulating the railroad business. Suppose I have no interest whatever in developing the technique of transportation. Suppose the convenience and prosperity of the

public do not concern me in the least, except as they affect the volume of business on the lines that I control. Suppose it is within my power under the law so to reorganize roads which other men have built, and which use of the sovereign right of eminent domain, among other things, has made into virtual monopolies, that the "earnings" of the roads are scandalously disproportioned to the actual cost of the service rendered, measured by any system comparable with adjustment of prices between parties fairly free to take or leave each other's offerings on their merits. Suppose those "earnings" pass, by legal sanction, so largely to my private credit that my wealth increases as if by magic, while no dispassionate person can discover that I have added anything to public welfare which is remotely comparable with the size of my income. It is an irresistible certainty that my status in the community will not be allowed to go long unchallenged. The myth that as a manipulator of railroad properties I am merely an evolved stage-driver is certain to be stared out of countenance. I am possible as a manipulator of railroad securities, and as a sequestrator of railroad revenues, simply because the community, which gives me the possibility of existence at all in my financial relations, has not yet intelligently taken in hand the problem of auditing my account as a purveyor of public service. It has not yet begun to take seriously its function of revising its requirements for a reasonable balance between obligations assumed, and powers conferred, and services performed on the one hand, and influence upon the public, aside from direct performance of the service, and the rate of reward on the other. That is, to adopt a related figure, the community has not yet discovered that I am not a mere farm-bred horse, drawing a stagecoach, but a Trojan horse capturing the city.

This paper began with a reference to the current social transition. The change may be described on its subjective side as an unorganized and largely instinctive effort of adjustment to a new attitude toward life. From the men whose adjustments are of the most particular and concrete sorts to those who attempt to philosophize the universe, the modern temper is no longer conformity to models, but inclination to understand and obey or control laws of cause and effect. The farmer no longer figures on a harvest because he has performed the prescribed ritual to the gods of the



fields. He counts on a harvest because he has used information that came from his own experience, supplemented perhaps by the agricultural experiment station. The citizen will not always believe that the best civic conditions possible are those given up to date by the spontaneous historical processes, and sanctified by conventional social doctrine. He is already beginning to believe that the best possible civic conditions will be the result of men's desire and will to find out whether they are co-operating toward the most intelligent ends, and with the highest attainable degree of efficiency. That is, our thinking and our feeling are no longer merely historical, or merely syllogistic; they are finally and chiefly functional. We believe in a thing, or disbelieve in it, because it works or does not work up to a standard set by our growing sense of what ought to be. Theories pro or con may hold what they will about criticism and reconstruction of capitalistic institutions. Those institutions are merely provisionally adopted means toward certain incidental ends. So sure as humanity remains virile, transition after transition will follow, in experiment with modified institutions, until our economic machinery gets into stable equilibrium with the implications of human needs.

The capitalistic ultimatum is that property is property, whether it is a hoe or a house or a railroad, a dollar or a thousand dollars or a thousand million dollars. The dictum belongs in the "important-if-true" class. With only the rudiments of objective social analysis, one may discover that it is not true. On the contrary, it would seem to be axiomatic that in the degree in which the partnership of other men besides the proprietor is necessary to make a type of capital possible and efficient, corresponding partnership of those other men in control of that capital is indicated. This logic is making the social transition. Men are applying this analysis and making this discovery. The result appears in gathering momentum of the movement to retire those accidents of our social order which make large sections of capital chiefly pretexts for privilege, and to substitute control which shall tend to make capital, from least to greatest, a consistent means of human service.<sup>1</sup>

<sup>1</sup> Discussion of the ways in which the three types of capital—tool, management, and finance—overlap and interlock in particular properties, was excluded from this paper by lack of space.